

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Board of Water and Light - City of Lansing, Michigan - Enterprise Fund	County Ingham
Audit Date 6/30/05	Opinion Date 9/2/05	Date Accountant Report Submitted to State: 9/30/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name)

**Plante & Moran, PLLC**

Street Address

**1111 Michigan Avenue**

City

**East Lansing**

State

**MI**

ZIP

**48823**

Accountant Signature

*Plante & Moran, PLLC*

Date

**9/30/05**

# **Board of Water and Light - City of Lansing, Michigan**

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## **Contents**

<b>Report Letter</b>	<b>1-2</b>
<b>Management's Discussion and Analysis</b>	<b>3-6</b>
<b>Basic Financial Statements</b>	
Balance Sheet	7-8
Statement of Revenues, Expenses, and Changes in Net Assets	9
Statement of Cash Flows	10-11
Notes to Financial Statements	12-37
<b>Additional Information</b>	<b>38</b>
Income Available for Revenue Bond Debt Retirement	39
Detail of Statement of Revenues and Expenses	40-41
Detail of Statement of Changes in Net Assets	42

## Independent Auditor's Report

Honorable Mayor, Members of City Council,  
and Commissioners of the  
Board of Water and Light

We have audited the basic financial statements of the Board of Water and Light - City of Lansing, Michigan Enterprise Fund (the "BWL") as of and for the years ended June 30, 2005 and 2004, as listed in the table of contents. These financial statements are the responsibility of the BWL's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 13 to the financial statements, the financial statements referred to above present only the Enterprise Fund of the BWL. The financial statements do not include financial data for the Board of Water and Light trust funds, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the BWL's Enterprise Fund. As a result, these financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of the BWL as of June 30, 2005 and 2004 and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Enterprise Fund of the BWL as of June 30, 2005 and 2004 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Honorable Mayor, Members of City Council,  
and Commissioners of the  
Board of Water and Light

The management's discussion and analysis on pages 3 through 6 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise BWL's basic financial statements. The additional information on pages 38 through 42 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

September 2, 2005

# **Board of Water and Light - City of Lansing, Michigan**

## **Management's Discussion and Analysis**

This section explains the general financial condition and results of operations for the Lansing Board of Water and Light (the "BWL"). The BWL includes the consolidated operations of the water, electric, and steam utilities. The notes to financial statements following this section are essential reading for a complete understanding of the financial and operational results for fiscal year 2005.

**Overview of Business** - The BWL owns and operates an electric system, which generates, purchases and distributes electric power and energy, and provides electric service to over 95,000 residential, commercial, and industrial customers in the greater Lansing area. The BWL generated 74 percent of its retail and wholesale sales from existing generation assets and purchased additional electric generation through its membership in the Michigan Public Power Agency's partial ownership of Detroit Edison's Belle River Plant.

The BWL owns and operates water wells, a raw water transmission system, water conditioning facilities and an extensive water distribution system serving potable water to over 54,000 residential, commercial, and industrial customers in the Greater Lansing Area.

The BWL owns and operates steam generation boilers, a steam transmission and distribution system serving 266 customers and a chilled water facility and distribution piping system serving 14 customers in the City of Lansing.

### **Capital Expenditures**

Capital expenditures are driven by the need to expand or maintain the generation, transmission and distribution systems of the BWL to meet growing customer utility needs and to maintain a satisfactory level of service reliability. The BWL invests essentially all revenues not paid out for operations and maintenance expense, non-operating expenses or debt principal back into capital improvements for the water, electric and steam systems. Gross capital expenditures were \$29 million in fiscal year 2005 compared to \$42 million in fiscal year 2004.

The BWL generally pays the major portion of the cost of its capital improvements from internally generated funds and a lesser portion from the proceeds of revenue bonds that are issued from time to time.

Detailed financial information for the separate utilities of water, electric, and steam can be found in the additional information section beginning on page 38.

# Board of Water and Light - City of Lansing, Michigan

## Management's Discussion and Analysis (Continued)

### Condensed Financial Information (dollars in millions)

	June 30		Percentage
	2005	2004	Change
<b>Assets</b>			
Utility plant	\$ 524.1	\$ 527.7	(0.7)
Other assets	<u>158.4</u>	<u>157.5</u>	0.6
Total assets	682.5	685.2	(0.4)
<b>Liabilities</b>			
Long-term liabilities	174.3	181.5	(4.0)
Other liabilities	<u>32.5</u>	<u>35.1</u>	(7.4)
Total liabilities	<u>206.8</u>	<u>216.6</u>	(4.5)
<b>Net Assets</b>			
Invested in capital assets	357.6	354.6	0.8
Restricted for debt service	50.0	61.0	(18.0)
Unrestricted	<u>68.1</u>	<u>53.0</u>	28.5
Total net assets	<u>\$ 475.7</u>	<u>\$ 468.6</u>	1.5

Utility plant decreased by the net amount of \$3.6 million due to capital expenditures being less than the offsetting depreciation and amortization for the year.

Other assets remained essentially unchanged.

Long-term liabilities decreased due to the payment of annual principle obligations without the issuance of any additional debt obligations.

Invested in capital assets increased \$3.0 million due to repayment of bonded debt and the use of construction bond funds, which exceeded the reduction in utility plant assets.

The decrease in restricted for debt service is due primarily to a reduction to the required amounts in the bond redemption funds.

The unrestricted equity increased \$15.1 million due primarily to a change in net assets of \$7.1 million and debt retirements of \$8.9 million.

# Board of Water and Light - City of Lansing, Michigan

## Management's Discussion and Analysis (Continued)

	Year Ended June 30		Percentage
	2005	2004	Change
<b>Results of Operations</b>			
Operating revenue	\$ 228.5	\$ 216.7	5.4
Operating expenses	220.0	210.9	4.3
Nonoperating expense - Net	<u>1.4</u>	<u>3.5</u>	(60.0)
Income before capital contributions	7.1	2.3	208.7
<b>Capital Contributions</b>	<u>-</u>	<u>3.2</u>	(100.0)
<b>Change in Net Assets</b>	<u>\$ 7.1</u>	<u>\$ 5.5</u>	<b>29.1</b>

Operating revenues increased \$11.8 million to recover increased purchased power and fuel costs. Wholesale electric sales were up \$19.9 and were partially offset by a reduction of \$7.2 in retail electric sales.

Operating expenses increased \$9.1 million due in part to a 12 percent increase in fuel and purchase power.

Nonoperating expenses decreased by \$2.1 million due primarily to increased interest income on investments and recognition of \$4.8 million in interest earnings on funds held by MPPA which, in total, exceeded the \$5.4 million decrease in other income in 2005 compared to 2004 related to the sale of emission credits.

Income before capital contributions for the fiscal year June 30, 2005 was \$7.1 million compared to \$2.3 million for the previous year.

The decrease in capital contributions is due to a change in accounting method. Contributions in aid of construction for water assets are now reported as an offset to capital cost, which is consistent with electric and steam reporting.

**Budget** - The BWL Commissioners approved a \$203.3 million operating expense budget for fiscal year 2005. Actual expenses were \$220.4 million or 8 percent more than budget. The increase was mainly due to increases in fuel and purchased power as well as other operating expenses. The net capital improvement budget was \$32.6 million for fiscal year 2005; actual net capital expenditures were \$28.7 million or 88 percent of the capital budget.

# **Board of Water and Light - City of Lansing, Michigan**

## **Management's Discussion and Analysis (Continued)**

**Financing Activities** - During fiscal year 2005, there were no significant financing activities.

During fiscal year 2004, revenue bonds in the amount of \$29,830,000 were issued to refinance the 2001A and a portion of the 1999A revenue bonds related to the Chilled Water Facility.

The BWL is currently considering the advance refunding of portions of the 1999A revenue bonds and the series 2002A revenue bonds. The decision to refund the bonds will depend on future market conditions.

**Other Significant Items** - In May 2005, General Motors Corporation ("GM") closed two plants in Lansing that are served by the BWL. GM is in the process of building the Lansing Delta Township Assembly Plant that is expected to open in late 2006. The BWL believes electric revenues from the new plant will mostly offset the decline in electric revenues from the 2005 plant closures. The impact on future steam revenues is currently being investigated.

On July 1, 2005, the BWL sold certain excess SO2 emission credits in the amount of \$3.6 million. The income effect of this transaction will be included in the 2006 financial results.



# Board of Water and Light - City of Lansing, Michigan

		June 30	
		2005	2004
<b>Assets</b>			
<b>Current Assets</b>			
Restricted cash and cash equivalents (Notes 4 and 11)	\$	50,439,953	\$ 59,139,779
Investments (Notes 1 and 11)		40,229,764	21,320,429
Accounts receivable - Net (Note 1)		24,466,935	17,895,640
Estimated unbilled accounts receivable (Note 1)		10,069,310	9,497,637
Inventories (Note 1)		11,940,961	10,821,279
Other		<u>1,322,241</u>	<u>976,689</u>
Total current assets		138,469,164	119,651,453
<b>Other Assets</b>			
Long-term receivable (Note 6)		-	17,773,665
Deferred energy cost (Note 6)		855,885	-
Deferred amortization of Central Utilities Complex (Note 6)		2,700,800	1,433,866
Deferred environmental remediation (Note 6)		4,623,000	4,623,000
Other		<u>1,630,485</u>	<u>1,144,497</u>
Total other assets		<u>9,810,170</u>	<u>24,975,028</u>
<b>Noncurrent Restricted Assets</b> (Notes 4 and 11)		10,121,212	12,920,317
<b>Utility Plant (Note 1)</b>			
Water		173,596,022	164,316,737
Electric		545,275,598	534,561,936
Steam		88,364,995	86,346,324
Common facilities		64,364,589	63,868,106
Central utilities complex		<u>76,079,000</u>	<u>76,079,000</u>
Total		947,680,204	925,172,103
Less accumulated depreciation		<u>450,308,407</u>	<u>426,070,902</u>
Total		497,371,797	499,101,201
Construction in progress (Note 3)		<u>26,741,827</u>	<u>28,568,345</u>
Total utility plant		<u>524,113,624</u>	<u>527,669,546</u>
Total assets		<u><b>\$ 682,514,170</b></u>	<u><b>\$ 685,216,344</b></u>

**Balance Sheet**

	June 30	
	2005	2004
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 13,513,638	\$ 15,051,834
Current portion of long-term debt (Note 5)	8,691,424	8,259,708
Accrued payroll and related taxes	1,341,754	2,679,435
Customer deposits	915,882	879,292
Accrued compensated absences (Note 1)	3,290,801	3,278,936
Accrued interest	4,760,448	4,979,374
Total current liabilities	32,513,947	35,128,579
<b>Compensated Absences</b> - Less current portion (Note 1)	7,342,328	7,238,157
<b>Other Long-term Liabilities</b>		
Workers' compensation	1,023,458	1,212,796
Environmental remediation liability	4,623,000	4,623,000
Arbitrage rebate requirement (Notes 4 and 12)	178,125	53,516
Other	1,668,777	888,031
Total other long-term liabilities	7,493,360	6,777,343
<b>Long-term Debt</b> - Less current portion (Note 5)	159,459,080	167,500,837
Total liabilities	206,808,715	216,644,916
<b>Net Assets</b>		
Invested in capital assets	357,613,276	354,609,032
Restricted for debt service (Note 4)	50,041,460	61,046,841
Unrestricted	68,050,719	52,915,555
Total net assets	475,705,455	468,571,428
Total liabilities and net assets	<u>\$ 682,514,170</u>	<u>\$ 685,216,344</u>

# Board of Water and Light - City of Lansing, Michigan

## Statement of Revenues, Expenses, and Changes in Net Assets

	Year Ended June 30	
	2005	2004
<b>Operating Revenues (Note 1)</b>		
Water	\$ 22,926,679	\$ 23,066,577
Electric	185,571,401	172,154,018
Steam	20,008,103	21,513,873
Total operating revenues	228,506,183	216,734,468
<b>Operating Expenses</b>		
Production:		
Fuel, purchased power, and other operating expenses	116,956,631	106,196,537
Maintenance	19,377,525	19,837,258
Transmission and distribution:		
Operating expenses	7,207,118	7,445,011
Maintenance	7,651,885	7,677,096
Administrative and general	41,624,515	40,458,897
Depreciation and impairment (Note 1)	27,149,445	29,245,316
Total operating expenses	219,967,119	210,860,115
<b>Operating Income</b>	8,539,064	5,874,353
<b>Nonoperating Income (Expenses)</b>		
Investment income	2,941,898	209,348
Other income	8,375,183	8,752,650
System capacity fee	9,330,849	9,331,480
Bonded debt interest expense	(9,434,106)	(9,665,402)
Amortization - Central utilities complex	(3,805,000)	(3,550,000)
Payment in lieu of taxes (Note 7)	(8,795,755)	(8,526,209)
Other interest expense	(18,106)	(109,621)
Total nonoperating expenses - Net	(1,405,037)	(3,557,754)
<b>Income Before Capital Contributions</b>	7,134,027	2,316,599
<b>Capital Contributions (Note 1)</b>	-	3,183,085
<b>Change in Net Assets</b>	7,134,027	5,499,684
<b>Net Assets - Beginning of year</b>	468,571,428	463,071,744
<b>Net Assets - End of year</b>	<b>\$ 475,705,455</b>	<b>\$ 468,571,428</b>

# Board of Water and Light - City of Lansing, Michigan

## Statement of Cash Flows

	Year Ended June 30	
	2005	2004
<b>Cash Flows from Operating Activities</b>		
Cash from customers:		
Water	\$ 23,402,011	\$ 23,621,055
Electric	177,831,862	175,544,069
Steam	20,375,189	21,948,913
Total cash from customers	221,609,062	221,114,037
Cash paid to suppliers:		
Suppliers of coal, freight, and purchased power	(96,781,899)	(75,238,072)
Other suppliers	(55,516,344)	(57,981,769)
Total cash paid to suppliers	(152,298,243)	(133,219,841)
Cash paid to employees	(44,639,087)	(42,081,355)
Payment in lieu of taxes (Note 7)	(8,795,755)	(8,526,209)
Net cash provided by operating activities	15,875,977	37,286,632
<b>Cash Flows from Capital and Related Financing Activities</b>		
Proceeds from new borrowings	1,436,945	30,716,977
Contributions in aid of construction - Water	-	3,183,085
Planned, bonded, and annual construction	(28,665,457)	(42,459,327)
Principal payments on debt	(8,922,377)	(35,907,498)
System capacity fees	9,330,849	8,553,405
Interest on debt	(9,653,032)	(9,894,841)
Net cash used in capital and related financing activities	(36,473,072)	(45,808,199)
<b>Cash Flows from Noncapital Financing Activities</b>		
Customer deposits	36,590	12,969
Interest on customer deposits	(18,105)	(17,012)
Pension fund debt payments	-	(1,683,784)
Interest on pension fund debt	-	(92,608)
Other	7,273,451	7,640,753
Net cash provided by noncapital financing activities	7,291,936	5,860,318
<b>Cash Flows from Investing Activities</b>		
Proceeds from the sale and maturity of investments	21,192,176	18,062,084
Interest received	2,941,898	2,048
Purchase of investments	(19,528,741)	(40,617)
Net cash provided by investing activities	4,605,333	18,023,515

# Board of Water and Light - City of Lansing, Michigan

## Statement of Cash Flows (Continued)

	Year Ended June 30	
	2005	2004
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ (8,699,826)</b>	<b>\$ 15,362,266</b>
<b>Cash and Cash Equivalents - Beginning of year</b>	<b>59,139,779</b>	<b>43,777,513</b>
<b>Cash and Cash Equivalents - End of year</b>	<b><u>\$ 50,439,953</u></b>	<b><u>\$ 59,139,779</u></b>
Reconciliation of operating income to net cash provided by operating activities:		
	Year Ended June 30	
	2005	2004
Operating income	\$ 8,539,064	\$ 5,874,353
Adjustments to reconcile operating income to net cash from operating activities:		
Payment in lieu of taxes (Note 7)	(8,795,755)	(8,526,209)
Depreciation	27,149,445	29,245,316
Sewerage collection fees	1,101,731	1,111,896
(Increase) decrease in assets:		
Accounts receivable (Note 1)	(6,571,295)	2,794,002
Unbilled accounts receivable (Note 1)	(571,673)	473,670
Inventories	(1,119,682)	2,211,409
Other	(1,687,425)	(176,802)
Increase (decrease) in liabilities:		
Accounts payable and other accrued expenses	(2,864,012)	2,927,994
Other and deferred costs	695,579	1,351,003
Total adjustments	<u>7,336,913</u>	<u>31,412,279</u>
Net cash provided by operating activities	<b><u>\$ 15,875,977</u></b>	<b><u>\$ 37,286,632</u></b>

# **Board of Water and Light - City of Lansing, Michigan**

**Notes to Financial Statements  
June 30, 2005 and 2004**

## **Note 1 - Significant Accounting Policies**

**Reporting Entity** - The Board of Water and Light (the "BWL"), a related organization of the City of Lansing, Michigan (the "City"), is an administrative board established by the City Charter. The City Charter grants the BWL full and exclusive management of the water, steam, and electric services of the City. The commissioners of the governing board are appointed by the mayor with approval of the City Council. The BWL provides water, steam, and electric services to the City and surrounding townships. The governing board (Board of Commissioners) has the exclusive authority to set rates for the services provided. The financial statements include the financial activities of the water, steam, and electric operations of the BWL. The BWL is exempt from taxes on income because it is a municipal entity.

**Basis of Accounting** - The BWL utilizes the accrual basis of accounting. In addition, the BWL follows the accounting and reporting requirements of Statement of Financial Accounting Standards (SFAS) No. 71, *Accounting for the Effects of Certain Types of Regulation*, which requires that the effects of the ratemaking process be recorded in the financial statements. Such effects primarily concern the time at which various items enter into the determination of net income in order to follow the principle of matching costs and revenues. Accordingly, the BWL records various regulatory assets and liabilities to reflect the regulator's actions (see Note 6). Management believes that the BWL meets the criteria for continued application of SFAS No. 71, but will continue to evaluate its applicability based on changes in the regulatory and competitive environment.

On July 1, 1994, BWL adopted Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*. Under this statement, the BWL elected to follow all SFAS statements issued after November 30, 1989 that do not conflict with GASB statements.

**System of Accounts** - The BWL's accounts are maintained substantially in accordance with the Uniform Systems of Accounts of the Federal Energy Regulatory Commission for its electric and steam systems and in accordance with the Uniform Systems of Accounts of the National Association of Regulatory Utility Commissioners for the water system.

# Board of Water and Light - City of Lansing, Michigan

## Notes to Financial Statements June 30, 2005 and 2004

### Note 1 - Significant Accounting Policies (Continued)

**Cash and Cash Equivalents** - The BWL considers demand deposits and current restricted funds, which consist of cash and highly liquid investments with an original maturity of 90 days or less, as cash and cash equivalents for financial statement purposes.

**Investments** - The BWL has established special purpose funds designated to meet anticipated operating requirements. These funds consist principally of commercial paper and United States Government securities and are segregated as follows:

	Carrying Value	
	2005	2004
Designated purpose:		
Coal inventory fluctuation	\$ 3,688,886	\$ 3,590,838
Litigation, environmental, and uninsured losses	15,398,882	14,803,531
Future Belle River costs	18,136,853	-
Future water facilities	<u>3,005,143</u>	<u>2,926,060</u>
Total	<u>\$ 40,229,764</u>	<u>\$ 21,320,429</u>

**Accounts Receivable** - Accounts receivable are stated at net invoice amounts. A general valuation allowance is established based on an analysis of the aged receivables and historical loss experience. All amounts deemed to be uncollectible are charged to expense in the period that determination is made. Accounts receivable are not deemed uncollectible until they are approximately 270 days past due and have remained completely unpaid throughout the BWL's collection policy. The components of accounts receivable for 2005 and 2004 are as follows:

	2005	2004
Customer receivables	\$ 12,451,599	\$ 10,833,122
Sewerage collections	1,904,646	1,727,222
Combined sewer overflow - City of Lansing	605,707	1,142,318
MPPA receivable	6,310,478	3,076,176
Miscellaneous	4,094,505	2,016,802
Less allowance for doubtful accounts	<u>(900,000)</u>	<u>(900,000)</u>
Total	<u>\$ 24,466,935</u>	<u>\$ 17,895,640</u>

# Board of Water and Light - City of Lansing, Michigan

## Notes to Financial Statements June 30, 2005 and 2004

### Note 1 - Significant Accounting Policies (Continued)

**Inventories** - Inventories are stated at weighted average cost and consist of the following at June 30:

	<u>2005</u>	<u>2004</u>
Coal	\$ 4,412,281	\$ 3,593,205
Materials and supplies	<u>7,528,680</u>	<u>7,228,074</u>
Total	<u>\$ 11,940,961</u>	<u>\$ 10,821,279</u>

**Utility Plant** - Utility plant is stated on the basis of cost, which includes expenditures for new facilities and those which extend the useful life of existing facilities and equipment. Expenditures for normal repairs and maintenance are charged to maintenance expense as incurred.

Depreciation of utility plant is computed using the straight-line method based on estimated useful lives, except for depreciation related to the central utilities complex, which is computed in accordance with SFAS No. 71. The resulting provisions for depreciation in 2005 and 2004, expressed as a percentage of the average depreciable cost of the related assets, are as follows:

	<u>Average Rate (Percent)</u>	
	<u>2005</u>	<u>2004</u>
Classification of utility plant:		
Water	1.9	1.9
Electric	3.4	3.8
Steam	3.8	3.8
Common facilities	3.8	5.0
Central utilities complex	5.0	4.7

When units of property are retired, their costs are removed from utility plant and charged to accumulated depreciation.

**Accrued Compensated Absences** - The BWL records a liability for estimated compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the BWL and its employees. This liability is accrued as employees earn the rights to such benefits. The BWL estimates the total current and noncurrent portions of the liability to be \$10,633,129 and \$10,517,093 as of June 30, 2005 and 2004, respectively.



# **Board of Water and Light - City of Lansing, Michigan**

## **Notes to Financial Statements June 30, 2005 and 2004**

### **Note I - Significant Accounting Policies (Continued)**

**Capital Contributions** - Capital contributions represent nonrefundable amounts received from customers for construction of a utility plant. Electric and steam contributions are credited against the related assets and will offset the depreciation of the related assets over the estimated useful life. This treatment is consistent with the BWL's ratemaking policy and is thus permitted under SFAS No. 71.

For the year ended June 30, 2004, contributions for water were recorded in accordance with GASB Statement No. 33 as net assets invested in capital assets, net of related debt. During the year ended June 30, 2005, the BWL elected to record contributions for water under SFAS No. 71 in a manner consistent with the accounting for electric and steam contributions.

**Net Assets** - Equity is classified as net assets and displayed in three components:

- **Invested in Capital Assets - Net of Related Debt** - Consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted for Debt Service** - Consists of net assets with constraints placed on their use by revenue bond resolution.
- **Unrestricted** - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

**Unbilled Accounts Receivable and Revenue** - Unbilled accounts receivable at June 30, 2005 represents the estimated amount of accounts receivable for services that have not been billed as of the balance sheet date. The amounts are a result of a timing difference between the end of the financial statement cycle (month end) and the billing cycle (various dates within the month for each billing period). Accordingly, the current year revenue from customers whose billing period ends after June 30 for services rendered prior to June 30 will be recognized in the current period.

**Interutility Transactions** - The water, electric, and steam operations of the BWL bill each other for services provided, and these services are reported as revenue to the generating operation and expense to the consuming operation. Such internal billings aggregated \$5,231,587 and \$5,834,096 in 2005 and 2004, respectively, and are not eliminated in the statement of income.

# **Board of Water and Light - City of Lansing, Michigan**

## **Notes to Financial Statements June 30, 2005 and 2004**

### **Note 1 - Significant Accounting Policies (Continued)**

**Emissions Allowance** - The Environmental Protection Agency has granted emission allowances to the BWL related to the emission of certain pollutants. No amounts are recorded at the date of the grant. The BWL estimates the allowances needed for future years. As appropriate, the BWL may purchase additional allowances or sell the estimated future excess allowances. The purchase and sale of allowances by emission type is accounted for separately and is not offset against transactions involving allowances of different emission types. Purchased allowances net of proceeds from the sale of related allowances are recorded as an asset and will be expensed during the applicable period. Proceeds from the sale of allowances are recognized as income at the time of sale (see Note 16).

The BWL recognized a gain of \$251,375 and \$5,833,253 as of June 30, 2005 and 2004, respectively, from the sale of allowances and has recorded an intangible asset of approximately \$1.3 million and \$1.5 million as of June 30, 2005 and 2004, respectively, for purchased allowances related to future periods.

**Significant Customers** - The BWL has one customer which accounts for approximately 13 percent and 17 percent of the BWL's total revenue for the years ended June 30, 2005 and 2004, respectively.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

### **Note 2 - Rate Matters**

Rates charged to customers are established solely by the governing board. The BWL has agreed to charge rates sufficient to meet certain requirements of the bond resolutions for the outstanding revenue bonds.

# Board of Water and Light - City of Lansing, Michigan

## Notes to Financial Statements June 30, 2005 and 2004

### Note 3 - Construction in Progress

Construction in progress consists of projects for expansion or additions to the utility plant. The estimated additional cost to complete these projects, based on the BWL's capital budget, approximates \$12,741,000 at June 30, 2005, including commitments on existing construction contracts approximating \$3,729,000. These projects will be funded through operational cash flow, including the project funds reported as other assets.

### Note 4 - Restricted Assets

Restricted assets are required under the 1989A, 1989B, 1994A, 1994B, 1999A, 1999B, 2001A, 2002A, 2002B, and 2003A Revenue Bond resolutions and the related Nonarbitrage and Tax Compliance Certificates. These assets, which consist of cash, certificates of deposit, commercial paper, and United States government securities, are segregated into the following funds:

	Required at June 30, 2005	Carrying Value	
		2005	2004
Current:			
Operations and Maintenance Fund	\$ 18,297,700	\$ 36,616,865	\$ 44,432,176
Bond and Interest Redemption Fund	12,954,880	13,823,088	14,707,603
Total current	31,252,580	50,439,953	59,139,779
Noncurrent:			
2001A Construction Fund	1,650,156	1,650,156	1,618,627
2002A and B Construction Fund	-	-	1,076,508
2003A Construction Fund	-	-	4,896
Bond Reserve Fund	8,015,544	8,417,540	9,723,543
Rebate Fund	53,516	53,516	496,743
Total noncurrent	9,719,216	10,121,212	12,920,317
Total	\$ 40,971,796	\$ 60,561,165	\$ 72,060,096

# **Board of Water and Light - City of Lansing, Michigan**

**Notes to Financial Statements  
June 30, 2005 and 2004**

## **Note 4 - Restricted Assets (Continued)**

The restrictions of the various funds are as follows:

- **Operations and Maintenance Fund** - By the end of each month, this fund shall include sufficient funds to provide for payment of the succeeding month's expenses.
- **Bond and Interest Redemption Fund** - Restricted for payment of the current portion of bond principal and interest and the remaining capitalized interest on the 1989A, 1989B, 1994A, 1994B, 1999A, 1999B, 2001A, 2002A, 2002B, and 2003A Revenue Bonds
- **2001A Construction Fund** - Restricted for payment of costs of the 2001A bonded projects and costs of issuance of the 2001A Revenue Bonds
- **2002A and 2002B Construction Fund** - Restricted for payment of costs of the 2002A and 2002B bonded projects and costs of issuance of the 2002A and 2002B Revenue Bonds
- **2003A Construction Fund** - Restricted for payment of costs of the 2003A bonded projects and costs of issuance of the 2003A Revenue Bonds
- **Bond Reserve Fund** - Shall include sufficient funds to cover the maximum annual principal and interest requirements for the outstanding 1989A, 1989B, 1994A, 1994B, 1999A, 2001A, and the uninsured portion of the 2002A, 2002B, and 2003A Revenue Bonds.
- **Rebate Fund** - Shall include sufficient funds to enable the BWL to rebate arbitrage investment earnings to the federal government in accordance with Section 148(f)(2) of the Internal Revenue Code (IRC) of 1986, as amended (see Note 12).

# Board of Water and Light - City of Lansing, Michigan

## Notes to Financial Statements June 30, 2005 and 2004

### Note 5 - Long-term Debt

Long-term debt as of June 30 consists of the following:

	2005	2004
Water Supply, Steam, and Electric Utility System Revenue Bonds, Series 2003A, due serially through July 1, 2026, plus interest at rates ranging from 2.50% to 5.00%	\$ 29,390,000	\$ 29,830,000
Water Supply, Steam, and Electric Utility System Revenue Bonds, Series 2002A, due serially through July 1, 2018, plus interest at rates ranging from 3.50% to 5.00%	23,410,000	23,730,000
Water Supply, Steam, and Electric Utility System Revenue Refunding Bonds, Series 2002B, due serially through July 1, 2013, plus interest at rates ranging from 3.00% to 3.75%	18,625,000	18,750,000
Water Supply, Steam, and Electric Utility System Revenue Bonds, Series 1999B, due serially through July 1, 2016, plus interest at rates ranging from 7.10% to 7.70%	67,369,000	70,919,000
Water Supply, Steam, and Electric Utility System Revenue Bonds, Series 1999A, due serially through July 1, 2014, plus interest at rates ranging from 4.10% to 5.50%	25,270,000	27,120,000
Water Supply and Electric Utility System Revenue Bonds, Series 1994A, with interest at 6.20%. Bonds were due and paid in full July 1, 2004	-	675,000
Water Supply and Electric Utility System Revenue Bonds, Series 1994B, due serially through July 1, 2008, plus interest at rates ranging from 4.60% to 5.00%	971,000	971,000
Water Supply and Electric Utility System Revenue Bonds, Series 1989A, with interest at rates ranging from 5.75% to 6.80%. Bonds matured serially and were due and paid in full July 1, 2004	-	500,000
Water Supply and Electric Utility System Revenue Bonds, Series 1989B, with interest at rates ranging from 6.70% to an imputed rate of 6.75%. These bonds are redeemable on demand by bondholders. Bonds matured serially and were due and paid in full July 1, 2004	-	398,000

# Board of Water and Light - City of Lansing, Michigan

## Notes to Financial Statements June 30, 2005 and 2004

### Note 5 - Long-term Debt (Continued)

	2005	2004
Promissory note, due to the City of Lansing in semi-annual installments through October 1, 2024, plus interest at 2.50%	\$ 2,536,568	\$ 2,041,642
Promissory note, due in monthly installments of \$9,492, including interest at 4.344%, with final payment December 30, 2008	369,209	444,028
Promissory note, due in monthly installments of \$3,923, including interest at 4.944%, with final payment October 2006	60,627	103,551
Promissory note, due in monthly installments of \$15,833, including interest at 4.889%, with final payment September 2008	569,870	727,797
Township contract water service obligation	<u>374,837</u>	<u>463,688</u>
Total	168,946,111	176,673,706
Less current portion	8,691,424	8,259,708
Less current portion of premium/deferred amount of refunding on bonds	(117,553)	(85,702)
Plus unamortized premium	882,672	956,228
Deferred amount on refunding of bonds	<u>(1,560,726)</u>	<u>(1,783,687)</u>
Total long-term portion	<u>\$ 159,459,080</u>	<u>\$ 167,500,837</u>

The fair value of the long-term debt based on the quoted market prices for similar issues for debt of the same remaining maturities is estimated to be \$186,537,400 and \$191,272,105 at June 30, 2005 and 2004, respectively.

The unamortized premium and deferral on refunded bonds is being amortized over the life of the bonds, using the effective-interest method.

# Board of Water and Light - City of Lansing, Michigan

## Notes to Financial Statements June 30, 2005 and 2004

### Note 5 - Long-term Debt (Continued)

Aggregate annual principal payments applicable to long-term debt are as follows:

	Principal	Interest	Total
2006	\$ 8,691,424	\$ 9,398,631	\$ 18,090,055
2007	9,039,696	8,922,267	17,961,963
2008	9,522,593	8,418,245	17,940,838
2009	9,842,632	7,877,986	17,720,618
2010	10,280,644	7,303,960	17,584,604
2011-2015	61,411,273	26,353,629	87,764,902
2016-2020	43,066,537	8,527,347	51,593,884
2021-2025	11,792,628	2,737,217	14,529,845
2026	5,298,684	266,214	5,564,898
Total	<u>\$ 168,946,111</u>	<u>\$ 79,805,496</u>	<u>\$ 248,751,607</u>

Resolutions of the 1989A, 1989B, 1994A, 1994B, and 1999A bonds and the uninsured portion of the 2002A, 2002B, and 2003A bonds require the BWL to establish a reserve account equal to the highest annual principal and interest requirements of such issues. As of June 30, 2005, the balance of this reserve account was \$8,417,540 (Note 4) satisfying these requirements. The reserve requirements for the 1999B bonds and a portion of the 2002B bonds are satisfied by the purchase of a debt service reserve fund surety bond. In order to assure the availability of funds necessary to redeem the 1989 Series B bonds, which were redeemable on demand by bondholders, the BWL maintained a \$2,000,000 long-term unsecured line of credit which expired upon payment of the 1989B bonds. During the year ended June 30, 2005, the bonds were paid in full and the line of credit expired. At June 30, 2004, there were no outstanding borrowings under this line of credit.

All Water Supply and Electric Utility System Revenue Bonds were issued by authority of the BWL. Except for the Series 1999B Subordinate Lien Revenue Bonds, these bonds were issued on a parity basis and are payable solely from the net revenue of combined water, electric, and steam operations of the BWL.

# **Board of Water and Light - City of Lansing, Michigan**

## **Notes to Financial Statements June 30, 2005 and 2004**

### **Note 5 - Long-term Debt (Continued)**

During the fiscal year ended June 30, 2004, the BWL issued \$29,830,000 of Water Supply, Steam, and Electric Utility System Revenue Refunding Bonds Series 2003A with an average interest rate of 4 percent; the proceeds were used to refund \$11,435,000 of Series 2001A and \$15,575,000 of Series 1999A Water Supply, Steam, and Electric Utility System Revenue bonds with average interest rates of 4 percent and 5 percent, respectively. There was an economic loss of \$1,985,660 to the BWL. The deferred loss on refunding is the difference between the reacquisition price of \$29,112,202 and the net carrying amount of the old bonds of \$27,010,000. The net deferred amount on refunding of \$2,102,202 is being amortized using the effective-interest method over the life of the old bonds. The proceeds of the new bonds were placed in an escrow deposit fund to provide for all future debt service payments on the old bonds. Accordingly, the escrow deposit fund assets and the liability for the defeased bonds are not included in the financial statements.

The BWL may redeem certain outstanding Water Supply and Electric Utility System Revenue Bonds prior to maturity. The Series 2003A bonds maturing in the years 2004 to 2013, inclusive, shall not be subject to redemption prior to maturity. Series 2003A bonds due on or after July 1, 2014 to 2026, inclusive, shall be subject to redemption prior to maturity, at the option of BWL, in such order of maturity as the BWL may determine, and by lot within any maturity, in whole or in part, on any date on or after July 1, 2013, at par plus accrued interest to the date fixed for redemption.

The Series 2002A bonds maturing in the years 2003 to 2012, inclusive, and the Series 2002B bonds shall not be subject to redemption prior to maturity. Series 2002A bonds due on or after July 1, 2013, shall be subject to redemption prior to maturity, at the option of BWL, in such order of maturity as the BWL may determine, and by lot within any maturity, in whole or in part, on any date on or after July 1, 2012, at par plus accrued interest to the date fixed for redemption.

The Series 1999B bonds maturing in the years 2002 to 2009, inclusive, shall not be subject to redemption prior to maturity. Series 1999B bonds due on or after July 1, 2010, shall be subject to redemption prior to maturity, at the option of BWL, in such order of maturity as the BWL may determine, and by lot within any maturity, in whole or in part, on any date on or after July 1, 2009, at par plus accrued interest to the date fixed for redemption. In addition, there was a special optional redemption on January 1, 2003, for all series 1999B bonds from unexpended series 1999B bond proceeds on hand as of November 1, 2002, if any, at a price of 101 percent of their par value plus accrued interest, if any, to the date of redemption.



# **Board of Water and Light - City of Lansing, Michigan**

## **Notes to Financial Statements June 30, 2005 and 2004**

### **Note 5 - Long-term Debt (Continued)**

The Series 1999A Bonds maturing in the years 2001 to 2009, inclusive, shall not be subject to redemption prior to maturity. Series 1999A bonds due on or after July 1, 2010, shall be subject to redemption prior to maturity, at the option of BWL, in such order of maturity as the BWL may determine, and by lot within any maturity, in whole or in part, on any date on or after July 1, 2009, at par plus accrued interest to the date fixed for redemption. During the year ended June 30, 2004, Series 1999A bonds in the amount of \$15,575,000 were defeased and this portion of the bond payable was removed from the BWL.

The Series 1994A bonds maturing in the years 2000 to 2004, inclusive, shall not be subject to redemption prior to maturity. Series 1994A bonds due on or after July 1, 2005, were subject to redemption prior to maturity, at the option of BWL. During the fiscal year ended June 30, 2003, the portion of the bonds due after July 1, 2005, were redeemed with the issuance of the 2002B Revenue Refunding Bonds. The Series 1994B bonds are noncallable. The remaining Series 1994A outstanding bonds were paid in full during the year ended June 30, 2005.

Series 1989A bonds maturing in the years 1998 to 2004, inclusive, shall be subject to redemption prior to maturity, at the option of the BWL, in such order of maturity as the BWL may determine, and by lot within any maturity, in whole or in part, on any date on or after July 1, 1997, at par plus accrued interest to the date fixed for redemption, plus a premium expressed as a percentage of principal amount, as follows:

- One percent of the principal amount of each bond or portion thereof called for redemption on or after July 1, 1999, but prior to July 1, 2001
- No premium shall be paid on bonds or portions thereof called for redemption on or after July 1, 2001.

Outstanding Series 1989A bonds were paid in full during the year ended June 30, 2005.

The Series 1989B bond issue is subdivided into Current Interest Bonds and Capital Appreciation Bonds. The Current Interest Bonds matured on July 1, 1999. The currently remaining Capital Appreciation Bonds are subject to redemption at the option of the BWL, in whole or in part, by lot, at 100 percent of the accreted value. Outstanding Series 1989B bonds were paid in full during the year ended June 30, 2005.

# Board of Water and Light - City of Lansing, Michigan

## Notes to Financial Statements June 30, 2005 and 2004

### Note 5 - Long-term Debt (Continued)

The long-term debt activity for the year ended June 30, 2005 is as follows:

	Compensated Absences	Revenue Bonds	Other Notes	Total
Beginning balance	\$ 10,517,093	\$ 171,979,839	\$ 3,780,706	\$ 186,277,638
Additions	116,036	-	1,312,335	1,428,371
Reductions	<u>-</u>	<u>(7,740,447)</u>	<u>(1,181,930)</u>	<u>(8,922,377)</u>
Ending balance	<u>\$ 10,633,129</u>	<u>\$ 164,239,392</u>	<u>\$ 3,911,111</u>	<u>\$ 178,783,632</u>
Due within one year	\$ 3,290,801	\$ 8,200,000	\$ 491,424	\$ 11,982,225

### Note 6 - Deferred Costs/Credits Recoverable in Future Years

The BWL accounts for amortization of its central utilities complex ("CUC"), which is a separate operating unit of the BWL, under SFAS No. 71. The BWL has recorded deferred amortization of \$2,700,800 and \$1,433,866 at June 30, 2005 and 2004, respectively. Under an agreement with a BWL customer, the bonded debt related to the construction of the CUC will be reimbursed through payments to be received from this customer through 2017. The deferred amortization balance represents the difference between calculated straight-line amortization expense and the reimbursement payments received from the customer at year end.

Effective for the year ended June 30, 2004, SFAS No. 71 was used in accounting for expenses to be incurred and the estimated liability for environmental remediation of a landfill site operated by the BWL. A regulatory asset of \$4,623,000 was created as a result. The BWL reviews the adequacy of its rates to recover its cost of service on an annual basis. Recovery of this regulatory asset will be considered in the next annual review and will be included in subsequent rates.

During the year ended June 30, 2005, the Board of Commissioners approved the use of SFAS No. 71 in accounting for the BWL's energy cost adjustment ("ECA"). The ECA adjusts the amount to be billed to retail electricity customers to reflect the difference between the BWL's actual energy cost and the amounts incorporated into electricity rates. This resulted in deferred energy costs of \$855,885 at June 30, 2005. This amount represents costs to be recovered from customers in future years because actual costs of providing electricity were higher than the costs incorporated into BWL's electricity rates.

# **Board of Water and Light - City of Lansing, Michigan**

**Notes to Financial Statements  
June 30, 2005 and 2004**

## **Note 6 - Deferred Costs/Credits Recoverable in Future Years (Continued)**

As a result of its Belle River Fuel Arbitration settlement, Michigan Public Power Agency (MPPA), a provider of energy to the BWL (see Note 10), has received a refund resulting from overcharges of fuel cost charges in prior years. The BWL's share of the proceeds of this settlement were held in trust for the benefit of the BWL and were to be applied as reductions to future power purchase billings at the direction of the BWL and with the approval of the Board of Commissioners of MPPA. At June 30, 2004, the BWL recorded a long-term receivable of \$17,773,665 related to such assets held in trust. During 2005, the refund was paid in full to the BWL.

## **Note 7 - Transactions with the City of Lansing, Michigan**

**Operations** - The BWL recognized revenue of \$5,098,587 and \$6,237,795 in 2005 and 2004, respectively, for water, electric, and steam services provided to the City. The BWL incurred expenses for sewerage services purchased from the City of \$356,781 and \$283,207 in 2005 and 2004, respectively.

Additionally, the BWL bills and collects sewerage fees for the City. In connection with these services, the BWL received sewerage collection fees of \$1,101,732 and \$1,111,897 in 2005 and 2004, respectively, included in other income.

**Payment in Lieu of Taxes** - Effective July 1, 1992, the BWL entered into an agreement with the City to provide an annual payment of a return on equity in accordance with a formula based on net billed retail sales from its water, steam heat, and electric utilities for the preceding 12-month period ending May 31 of each year. Effective March 1, 2002 and ending June 30, 2012, the formula to calculate the amount owed to the City for payment in lieu of taxes will also include revenue generated from the BWL's sales for resale on its water, steam heat, and electric utilities for the preceding 12-month period ending May 31 of each year. Subject to the provisions of Act 94 Public Acts of 1933, as amended, and the BWL's various bond covenants, this amount is payable to the City no later than June 30 of each year. Under terms of this agreement, the BWL paid to the City \$8,795,755 in 2005, and \$8,526,209 in 2004, of operational cash flow in excess of debt service requirements.

# **Board of Water and Light - City of Lansing, Michigan**

## **Notes to Financial Statements June 30, 2005 and 2004**

### **Note 8 - Retirement Plans**

The BWL has two retirement plans. The BWL administers a tax-qualified, single-employer, noncontributory, defined benefit public employee retirement pension plan (the "Defined Benefit Plan"), and the BWL has a tax-qualified, single-employer, noncontributory, defined contribution public employee retirement pension plan (the "Defined Contribution Plan").

#### **Defined Benefit Plan**

The defined benefit plan was established by the BWL in 1939 under Section 5-203 of the City Charter and has been revised several times, with the latest revision taking effect on November 19, 2002.

The Defined Benefit Plan, by resolution of the Board of Commissioners, was closed to employees hired subsequent to December 31, 1996, and a Defined Contribution Plan was established for employees hired after December 31, 1996. Effective December 1, 1997, all active participants in the Defined Benefit Plan were required to make an irrevocable choice to either remain in the Defined Benefit Plan or move to the newly established Defined Contribution Plan. Those participants who elected to move to the Defined Contribution Plan received lump-sum distributions from the Defined Benefit Plan, which were rolled into their accounts in the new Defined Contribution Plan. Of the 760 employees that were required to make this election, 602 elected to convert their retirement benefits to the newly established Defined Contribution Plan.

The Plan for Employees' Pensions of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Board of Water and Light, Senior Vice President of Finance and Administration, P.O. Box 13007, Lansing, Michigan 48901-3007.

A participant's interest is fully vested when the participant has been credited with seven years of vesting service. The Defined Benefit Plan provides for an annual benefit upon normal retirement equal to the total number of years of credited service multiplied by 1.8 percent of the highest annual pay during the last 10 years of service, paid in equal monthly installments.

# **Board of Water and Light - City of Lansing, Michigan**

## **Notes to Financial Statements June 30, 2005 and 2004**

### **Note 8 - Retirement Plans (Continued)**

Effective July 1, 1999, the Defined Benefit Plan was amended to include a medical-benefit component, in addition to the normal retirement benefits, to fund a portion of the post-retirement obligations for certain retirees and their beneficiaries. The funding of the medical benefit component is limited to the amount of excess pension plan assets available for transfer, as determined by the actuary. For the year ended June 30, 2004, these amounts totaled \$4,813,944. During the year ended June 30, 2005, medical benefits paid by the Defined Benefit Plan totaled \$5,219,258.

**Basis of Accounting** - The Defined Benefit Plan's financial statements are prepared using the accrual basis of accounting. Benefits are recognized when due and payable in accordance with the terms of the Defined Benefit Plan.

**Investment Valuation and Income Recognition** - The Defined Benefit Plan investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price. Investments that do not have an established market are reported at estimated fair values.

**Funding Policy and Annual Pension Cost** - The BWL's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the years ended June 30, 2005, 2004, and 2003, were determined using an attained age projected unit credit actuarial funding method. No transition adjustments were required upon implementation of Governmental Accounting Standards Board No. 27, *Accounting for Pensions by State and Local Government Employers*. Overfunded actuarial accrued liabilities were amortized as a level dollar reduction of contributions over a period of 15 years in 2005, 2004, and 2003.

The annual pension cost was determined as part of an actuarial valuation of the Defined Benefit Plan as of February 28, 2005, February 29, 2004, and February 28, 2003. Significant actuarial assumptions used in determining the annual pension cost include (a) rate of return on the investment of present and future assets of 7.5 percent in 2005, 2004, and 2003, compounded annually, (b) projected salary increases ranging from 5.0 to 11.0 percent in 2005, 2004, and 2003, compounded annually, depending on age, attributable to inflation, and (c) the assumption that benefits will not increase after retirement.

# Board of Water and Light - City of Lansing, Michigan

## Notes to Financial Statements June 30, 2005 and 2004

### Note 8 - Retirement Plans (Continued)

Employer contributions were made in accordance with contribution requirements determined by an actuarial valuation of the Defined Benefit Plan and consisted of the following:

	2005	2004	2003
Normal cost	\$ 688,293	\$ 762,292	\$ 823,367
Amortization of the overfunded actuarial accrued liability	(4,983,145)	(4,859,003)	(5,420,082)

Based on the overfunded status of the Defined Benefit Plan, no employer contributions are required.

#### Schedule of Funding Progress (Unaudited - Required Information)

(Dollar amounts in thousands)

Valuation Date	Actuarial Asset Values	AAL	UAAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
February 28, 2003	\$ 137,123	\$ 91,015	\$ (46,108)	151	\$ 5,268	(875.2)
February 29, 2004	136,898	89,612	(47,286)	153	4,788	(987.6)
February 28, 2005	128,891	86,560	(42,331)	149	4,142	(1,022.0)

AAL - Actuarial Accrued Liability (Projected Unit Credit Accrued Liability)

UAAL - Unfunded Actuarial Accrued Liability, negative UAAL indicates a funding excess

**Three-year Trend Information** - Assets available at market; actuarial accrued liability - projected unit cost method (AAL); unfunded actuarial accrued liability (UAAL) and negative UAAL indicates a funding excess.

(Dollar amounts in thousands)

Fiscal Year Ended	Assets Available	AAL	UAAL	Funded Ratio
June 30, 2003	\$ 126,359	\$ 91,015	\$ (35,344)	139
June 30, 2004	126,728	89,612	(37,116)	141
June 30, 2005	120,015	86,560	(33,455)	139

# **Board of Water and Light - City of Lansing, Michigan**

**Notes to Financial Statements  
June 30, 2005 and 2004**

## **Note 8 - Retirement Plans (Continued)**

### **Defined Contribution Plan**

The Defined Contribution Plan was established by the BWL in 1997 under Section 5-203 of the City Charter. The Defined Contribution Plan covers substantially all full-time employees hired after December 31, 1996. In addition, 602 employees hired before January 1, 1997 elected to convert their retirement benefits from the Defined Benefit Plan effective December 1997.

The Plan for Employees' Pensions of the Board of Water and Light - City of Lansing, Michigan - Defined Contribution Plan issues a publicly available financial report. That report may be obtained by writing to the Board of Water and Light, Senior Vice President of Finance and Administration, Post Office Box 13007, Lansing, Michigan 48901-3007.

The Defined Contribution Plan operates as a money purchase pension plan and meets the requirements of Sections 401(a) and 501(a) of the IRC of 1986, as amended from time to time.

For employees hired before January 1, 1997, the BWL is required to contribute 15.0 percent of the employees' compensation. For employees hired after January 1, 1997, the BWL is required to contribute 8.1 percent of the employees' compensation. In addition, the BWL is required to contribute 3.0 percent of the employees' compensation for all employees who are not eligible to receive overtime pay and 0.5 percent of the employees' compensation for all nonbargaining employees.

During the years ended June 30, 2005 and 2004, the BWL contributed \$5,319,172 and \$5,035,264, respectively. The BWL contributions are recognized in the period that the contributions are due.

# **Board of Water and Light - City of Lansing, Michigan**

## **Notes to Financial Statements June 30, 2005 and 2004**

### **Note 8 - Retirement Plans (Continued)**

#### **Other Postretirement Benefits**

In addition to providing pension benefits, the BWL provides certain hospitalization, dental, and life insurance benefits for retired employees in accordance with Section 5-203 of the City Charter. Substantially all of the BWL's employees may become eligible for health care benefits and life insurance benefits if they reach normal retirement age while working for the BWL. Fifty percent of the cost of life insurance benefits will be paid by bargaining unit employees. The hospitalization and dental benefits are provided through an insurance company whose premiums are based on the benefits paid during the year. Effective July 1, 1999, the Defined Benefit Plan was amended to include a medical-benefit component, in addition to the normal retirement benefits, to fund a portion of the post-retirement obligations for certain retirees and their beneficiaries. The funding of the medical benefit component is limited to the amount of excess pension plan assets available for transfer, as determined by the actuary. For the year ended June 30, 2005, the total cost of providing such benefits was \$6,351,118, of which \$5,219,258 was funded by the Defined Benefit Plan of the BWL, and the remainder was funded by BWL. For the year ended June 30, 2004, the total cost of providing such benefits was \$5,876,481, of which \$4,813,944 was funded by the Defined Benefit Plan of the BWL, and the remainder was funded by BWL. There were 641 participants eligible to receive benefits at June 30, 2005, and 618 participants eligible at June 30, 2004.

In October 1999, the BWL formed a Voluntary Employee Benefit Administration (VEBA) trust for the purpose of accumulating assets sufficient to fund retiree health care insurance costs in future years. During the years ended June 30, 2005 and 2004, the BWL contributed \$7,219,258 and \$6,704,484, respectively, to the VEBA trust.

The BWL offers its employees a deferred compensation plan, created in accordance with IRC 457, that is administered by a Trustee, the ICMA Retirement Corporation. The BWL does not contribute to this plan.

### **Note 9 - Commitments and Contingencies**

At June 30, 2005, the BWL has unused letters of credit in the amounts of \$817,220 and \$1,000,000, issued to the Michigan Department of Natural Resources. The letters of credit were issued to satisfy requirements of the Michigan Department of Natural Resources to provide financial assurance to the State of Michigan for the cost of closure and postclosure monitoring and maintenance of a landfill site operated by the BWL.



# **Board of Water and Light - City of Lansing, Michigan**

## **Notes to Financial Statements June 30, 2005 and 2004**

### **Note 9 - Commitments and Contingencies (Continued)**

Through monitoring tests performed on the landfill site operated by the BWL, it has been discovered that the site is contaminating the groundwater. The contamination does not pose a significant health risk, but does lower the quality of the groundwater. The BWL is currently in the process of applying for approval from the State of Michigan to remediate the site. The BWL has estimated the total cost for remediation of the landfill to be \$4,623,000 and has recorded the liability for the years ended June 30, 2005 and 2004. In accordance with SFAS No. 71 (see Note 1), the BWL recorded a corresponding regulatory asset (see Note 6).

The BWL has announced a program to upgrade existing lead pipes throughout the BWL service area over the course of approximately 11 years at a cost of approximately \$38,000,000.

The BWL is subject to various laws and regulations with respect to environmental matters such as air and water quality, soil contamination, solid waste disposal, handling of hazardous materials, and other similar matters. Compliance with these various laws and regulations could result in substantial expenditures. The BWL has established a Designated Purpose Fund (see Note 1) of which one of the purposes of the fund is to meet extraordinary expenditures resulting from responsibilities under environmental laws and regulations. Management believes that all known or expected responsibilities to these various laws and regulations by the BWL will be sufficiently covered by the Designated Purpose Fund and the environmental remediation liability.

The BWL is involved in various other legal actions, which have arisen in the normal course of business. Such actions are usually brought for claims in excess of possible settlement or awards, if any, that may result. After taking into consideration legal counsel's evaluation of pending actions, management has recorded an adequate reserve as of June 30, 2005 in regard to specific pending legal cases.

The BWL has entered into contracts to purchase coal totaling approximately \$28,140,000 through December 31, 2006. In addition, the BWL has entered into contracts for the rail services related to shipping the coal. Commitments for future rail services to be purchased are approximately \$64,400,000 through December 2008.

The BWL has entered into agreements for other operating activities totaling approximately \$2,900,000 through December 31, 2007.

# Board of Water and Light - City of Lansing, Michigan

## Notes to Financial Statements June 30, 2005 and 2004

### Note 10 - Power Supply Purchase

In 1983, the BWL entered into 35-year power supply and project support contracts with the Michigan Public Power Agency (MPPA), of which the BWL is a member. Under the agreement, the BWL has the ability to purchase power from MPPA, will sell power to MPPA at an agreed-upon rate, and will purchase 64.29 percent of the energy generated by MPPA's 37.22 percent ownership in Detroit Edison's Belle River Unit #1 (Belle River), which became operational in August 1984.

Under the terms of its contract, the BWL must make minimum annual payments equal to its share of debt service and its share of the fixed operating costs of Belle River. The estimated required payments presented below assume no early calls or refinancing of existing revenue bonds and a 3.0 percent annual inflation of fixed operating costs, which include expected major maintenance projects.

Year	Debt Service	Estimated Fixed Operating	Total Required
2006	\$ 17,677,037	\$ 9,037,385	\$ 26,714,422
2007	17,674,811	9,308,507	26,983,318
2008	17,675,124	9,587,762	27,262,886
2009	17,677,776	9,875,395	27,553,171
2010	17,677,701	10,171,656	27,849,357
2011 - 2015	88,380,049	55,622,788	144,002,837
2016	17,677,540	12,145,667	29,823,207
Total	<u>\$ 194,440,038</u>	<u>\$ 115,749,160</u>	<u>\$ 310,189,198</u>

In addition to the above required payments, the BWL must pay for fuel, other operating costs, and transmission costs related to any kilowatt hours (KWHs) purchased under these contracts.

The BWL recognized expenses for 2005 and 2004 of \$43,464,342 and \$38,364,377, respectively, to purchase power under the terms of this contract. The price of this power was calculated on a basis, as specified in the contracts, to enable MPPA to recover its production, transmission, and debt service costs.

# **Board of Water and Light - City of Lansing, Michigan**

## **Notes to Financial Statements June 30, 2005 and 2004**

### **Note 10 - Power Supply Purchase (Continued)**

In connection with the Belle River purchase, in December 2002, MPPA issued \$280,180,000 principal amount of its Belle River Project Refunding Revenue Bonds, 2002 Series A, with rates ranging from 2.125 percent to 5.25 percent to advance refund \$330,850,000 outstanding 1993A and B bonds.

During the year ended June 30, 2005, the BWL submitted a five-year termination notice of its participation in the MPPA Power Pool Project, terminating, as of December 31, 2010, the BWL's contractual obligation to buy and sell power within the Pool. The termination notice does not extinguish the BWL's membership in MPPA and causes no change in BWL's contractual obligations to MPPA related to Belle River.

### **Note 11 - Cash, Investments, and Fair Value Disclosure**

During the year ended June 30, 2005, the BWL adopted GASB No. 40, *Deposit and Investment Risk Disclosures*. The modified disclosures required by GASB No. 40 are reflected below.

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; certificates of deposit, savings accounts, deposit accounts, or depository receipts of an eligible financial institution; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The operating cash investment policy adopted by the BWL in accordance with Public Act 20, as amended, and the Lansing City Charter has authorized investment in bonds and securities of the United States government, certificates of deposit, time deposits, and bankers' acceptances of qualified financial institutions, commercial paper rated A1 by Standard and Poor's and P1 by Moody's, repurchase agreements using any of these securities, and liquid asset accounts managed by a qualified financial institution using any of these securities. The BWL's deposits and investment policies are in accordance with statutory authority.

# Board of Water and Light - City of Lansing, Michigan

## Notes to Financial Statements June 30, 2005 and 2004

### Note 11 - Cash, Investments, and Fair Value Disclosure (Continued)

The BWL's cash and investments are subject to several types of risk, which are examined in more detail below:

#### Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the BWL's deposits may not be returned to it. The BWL requires that financial institutions must meet minimum criteria to offer adequate safety to BWL. At year end, the BWL had \$4,539,211 of bank deposits that were uninsured and uncollateralized. The BWL believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the BWL evaluates each financial institution with which it deposits funds and only those institutions meeting minimum established criteria are used as depositories.

#### Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the BWL will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The BWL does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the BWL's name:

Type of Investment	Carrying Value	How Held
U.S. government or agency bond or notes	\$ 29,083,237	Counterparty

#### Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The BWL's investment policy restricts investment maturities to a maximum maturity of three years. At year end, the average maturities of investments are as follows:

	Fair Value	Less than 1 Year	1-5 Years
Pooled investment funds (if not 2a-7)	\$ 15,509,230	\$ 15,509,230	\$ -
U.S. government or agency bond or note	32,052,606	8,966,626	23,085,980
Commercial paper	45,599,358	45,599,358	-

# Board of Water and Light - City of Lansing, Michigan

## Notes to Financial Statements June 30, 2005 and 2004

### Note 11 - Cash, Investments, and Fair Disclosure (Continued)

#### Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The BWL investment policy further limits its investment in commercial paper to prime quality by both Standard and Poor's and Moody's (A1/P1). As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Pooled investment funds	\$ 15,509,324	AAA	S&P
	6,190,411	Not rated	Not rated
Commercial paper	19,587,461	A1 +	S&P
	26,011,897	A1	S&P

#### Concentration of Credit Risk

The BWL's investment policy allows no more than 30 percent of the total portfolio to be invested in obligations of any particular issuer except the U.S. Treasury. As of year end, more than 5 percent of the BWL's investments are in various commercial paper as listed below. These investments represent 28.67 percent of the BWL's total investments.

Issuer	Amount Invested	Percentage of Total Investments
American Express Credit commercial paper	\$ 5,781,555	5.73
Fountain Square commercial paper	5,980,839	5.93
General Electric Capital commercial paper	5,158,813	5.11
Sigma Finance commercial paper	6,311,804	6.25
Toyota Motor Credit commercial paper	5,700,103	5.65

#### Foreign Currency Risk

The BWL policy requires that all investments be in U.S. dollars. The BWL holds no investments in foreign entities, currency, or debt.

# **Board of Water and Light - City of Lansing, Michigan**

## **Notes to Financial Statements June 30, 2005 and 2004**

### **Note 12 - Estimated Liability for Excess Earning on Water Supply and Electric Utility System Revenue Bonds**

In accordance with Section 148(f)(2) of the IRC of 1986, as amended, the BWL is required on each anniversary date (July 1) of the Water Supply, Electric Utility, and Steam Utility System Revenue Bonds, Series 1989A and B, Series 1994A and B, Series 1999A, Series 2002A and B, and 2003A, to compute amounts representing the cumulative excess earnings on such bonds. That amount essentially represents a defined portion of any excess of interest earned on funds borrowed over the interest cost of the tax-exempt borrowings. Expense is charged (credited) annually in an amount equal to the estimated increase (decrease) in the cumulative excess earnings for the year. On every fifth anniversary date and upon final maturity of the bonds, the BWL is required to remit to the Internal Revenue Service the amount of any cumulative excess earnings computed on the date of such maturity plus an amount equal to estimated interest earned on previous years' segregated funds.

At June 30, 2005 and 2004, the estimated liability for excess earnings is \$178,125 and \$53,516, respectively. During the year ended June 30, 2005, the BWL received a recovery of overpayment from the United States Treasury of \$184,101 under the arbitrage provisions on series 1989A and 1989B bonds. In accordance with the requirements of the bond indenture, the BWL is required to set aside any current year additions to this estimated liability in a rebate fund within 60 days of the anniversary date of the bonds.

### **Note 13 - Enterprise Fund**

The financial statements presented reflect only the financial statements of the Enterprise Fund of the BWL and do not include the assets, liabilities, equity, and operations of the Pension Funds and VEBA trust of the BWL. Management of the BWL has prepared these financial statements under such basis to facilitate the comparison of operating results with entities engaged in providing similar types of services.

### **Note 14 - Risk Management and Insurance**

The BWL is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The BWL has purchased commercial insurance for certain general liability, business auto, excess liability, property and boiler and machinery, public officials and employee liability claims, and specific excess workers' compensation claims, subject to policy terms, limits, limitations, and deductibles. The BWL is uninsured for other claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

# **Board of Water and Light - City of Lansing, Michigan**

## **Notes to Financial Statements June 30, 2005 and 2004**

### **Note 15 - Changes in Accounting Principles**

During the year ended June 30, 2004, the BWL elected the early adoption of GASB No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, to account for impairment related to the Ottawa Station, an idle electric plant and associated land. In accordance with GASB No. 42, the building and land were separately evaluated and an adjustment in the amount of \$3,357,350 was recorded to write the Ottawa Station down to its fair value. The idle plant and land remaining on the BWL's books are valued at \$948,677 and are included in electric utility plant in the balance sheet.

### **Note 16 - Subsequent Event**

Subsequent to June 30, 2005, the BWL entered into an agreement to sell certain emissions allowances under the accounting policy discussed in Note 1. The BWL recorded a gain of approximately \$3.6 million related to this sale in July 2005.

Subsequent to June 30, 2005, the BWL is considering the advance refunding of portions of the 1999A revenue bonds and series 2002A revenue bonds.

## **Additional Information**

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# **Board of Water and Light - City of Lansing, Michigan**

## **Income Available for Revenue Bond Debt Retirement**

	Year Ended June 30	
	2005	2004
<b>Income</b> - Before capital contributions per statement of revenues, expenses, and changes in net assets	\$ 7,134,027	\$ 2,316,599
<b>Additional Income</b>		
Depreciation expense	27,149,445	29,245,316
Interest on long-term debt:		
Notes	18,106	109,621
Revenue bonds	9,434,106	9,665,402
<b>Total</b>	<u>36,601,657</u>	<u>39,020,339</u>
<b>Income Available for Revenue Bonds and Interest Redemption</b>	<u>\$ 43,735,684</u>	<u>\$ 41,336,938</u>
<b>Debt Retirement Pertaining to Revenue Bonds</b>		
Principal	\$ 7,857,999	\$ 8,405,000
Interest	9,434,106	9,665,402
<b>Total</b>	<u>\$ 17,292,105</u>	<u>\$ 18,070,402</u>
<b>Percent Coverage of Revenue Bonds and Interest Requirements</b>	<u>253</u>	<u>229</u>

# Board of Water and Light - City of Lansing, Michigan

	Combined		Eliminations	
	2005	2004	2005	2004
<b>Operating Revenues</b>				
Water	\$ 22,926,679	\$ 23,066,577	\$ -	\$ -
Electric:				
Retail	145,849,433	152,335,350	(516,952)	(516,952)
Sales for resale	39,721,968	19,818,668	-	-
Steam	20,008,103	21,513,873	-	-
<b>Total operating revenues</b>	<b>228,506,183</b>	<b>216,734,468</b>	<b>(516,952)</b>	<b>(516,952)</b>
<b>Operating Expenses</b>				
Production:				
Fuel, purchased power, and other operating expenses	116,956,631	106,196,537	(516,952)	(516,952)
Maintenance	19,377,525	19,837,258	-	-
Transmission and distribution:				
Operating expenses	7,207,118	7,445,011	-	-
Maintenance	7,651,885	7,677,096	-	-
Administrative and general	41,624,515	40,458,897	-	-
Depreciation and impairment	27,149,445	29,245,316	-	-
<b>Total operating expenses</b>	<b>219,967,119</b>	<b>210,860,115</b>	<b>(516,952)</b>	<b>(516,952)</b>
<b>Operating Income</b>	<b>8,539,064</b>	<b>5,874,353</b>	<b>-</b>	<b>-</b>
<b>Nonoperating Income (Expenses)</b>				
Investment income	2,941,898	209,348	(226,162)	(286,040)
Other income	8,375,183	8,752,650	-	-
System capacity fees	9,330,849	9,331,480	-	-
Bonded debt interest expense	(9,434,106)	(9,665,402)	-	-
Amortization - Central utilities complex	(3,805,000)	(3,550,000)	-	-
Payment in lieu of taxes	(8,795,755)	(8,526,209)	-	-
Other interest expense	(18,106)	(109,621)	226,162	286,040
<b>Total nonoperating expenses</b>	<b>(1,405,037)</b>	<b>(3,557,754)</b>	<b>-</b>	<b>-</b>
<b>Income (Loss) Before Capital Contributions</b>	<b>\$ 7,134,027</b>	<b>\$ 2,316,599</b>	<b>\$ -</b>	<b>\$ -</b>

**Detail of Statement of Revenues and Expenses  
Years Ended June 30, 2005 and 2004**

Water		Electric		Steam	
2005	2004	2005	2004	2005	2004
\$ 22,926,679	\$ 23,066,577	\$ -	\$ -	\$ -	\$ -
-	-	146,366,385	152,852,302	-	-
-	-	39,721,968	19,818,668	-	-
-	-	-	-	20,008,103	21,513,873
22,926,679	23,066,577	186,088,353	172,670,970	20,008,103	21,513,873
6,001,312	5,634,766	101,704,838	90,962,425	9,767,433	10,116,298
2,408,869	2,217,611	15,082,216	15,838,759	1,886,440	1,780,888
-	-	-	-	-	-
1,465,518	1,709,330	5,590,355	5,614,796	151,245	120,885
1,666,290	1,836,967	5,507,289	5,262,612	478,306	577,517
6,290,938	6,173,104	33,685,467	32,517,250	1,648,110	1,768,543
3,643,934	3,553,895	20,137,725	22,306,285	3,367,786	3,385,136
21,476,861	21,125,673	181,707,890	172,502,127	17,299,320	17,749,267
1,449,818	1,940,904	4,380,463	168,843	2,708,783	3,764,606
531,584	(56,687)	2,244,231	594,555	392,245	(42,480)
1,212,424	1,257,882	7,154,843	7,352,265	7,916	142,503
817,382	817,438	7,802,456	7,802,983	711,011	711,059
(1,166,893)	(1,291,495)	(5,949,380)	(6,331,234)	(2,317,833)	(2,042,673)
(333,318)	(310,980)	(3,181,741)	(2,968,510)	(289,941)	(270,510)
(879,466)	(911,457)	(7,120,693)	(6,766,939)	(795,596)	(847,813)
(5,655)	(18,967)	(12,410)	(85,289)	(226,203)	(291,405)
176,058	(514,266)	937,306	(402,169)	(2,518,401)	(2,641,319)
\$ 1,625,876	\$ 1,426,638	\$ 5,317,769	\$ (233,326)	\$ 190,382	\$ 1,123,287

# **Board of Water and Light - City of Lansing, Michigan**

## **Detail of Statement of Changes in Net Assets**

	<u>Combined</u>	<u>Water</u>	<u>Electric</u>	<u>Steam</u>
<b>Net Assets - June 30, 2003</b>	\$ 463,071,744	\$ 89,993,792	\$ 354,973,091	\$ 18,104,861
Contributions	3,183,085	3,183,085	-	-
Income before contributions	<u>2,316,599</u>	<u>1,426,638</u>	<u>(233,326)</u>	<u>1,123,287</u>
<b>Net Assets - June 30, 2004</b>	468,571,428	94,603,515	354,739,765	19,228,148
Income before contributions	<u>7,134,027</u>	<u>1,625,876</u>	<u>5,317,769</u>	<u>190,382</u>
<b>Net Assets - June 30, 2005</b>	<u><b>\$ 475,705,455</b></u>	<u><b>\$ 96,229,391</b></u>	<u><b>\$ 360,057,534</b></u>	<u><b>\$ 19,418,530</b></u>

September 2, 2005

Finance Committee  
Board of Water and Light - City of Lansing Michigan  
Lansing, Michigan

We recently completed our audit of the financial statements of the Board of Water and Light - City of Lansing, Michigan Enterprise Fund (BWL) for the year ended June 30, 2005. During the audit we noted various issues involving your organization that we would like to bring to your attention. Following are summaries of our observations and recommendations for your consideration and discussion.

#### **ACCOUNTS RECEIVABLE**

Credit memos are not issued to customers in the CI and CL customer accounts receivable systems. Instead, the customer's bill is cancelled and re-billed. Currently, the BWL is unable to determine the value of bills that are cancelled and re-billed. We recommend the BWL implement a policy of coding in the system in order to track customers who have cancelled bills and have been re-billed and also require employees who perform this function to initial the transaction. A monthly review should be performed to verify appropriate individuals are canceling bills and that the re-bills are being done timely and in the proper amounts.

#### ***Management's Response:***

Management agrees that we do not issue credit memos to customers in CI and CL systems, corrections are posted as cancel and re-bills. We disagree with the recommendation to track customers re-billed and to have employees initial the transaction, as we already track cancelled sales monthly by revenue number and by receivable, and any cancel and re-bills performed by BWL employees are tracked by user ID on our information system. We agree with the recommendation that a monthly review should be performed to verify appropriate individuals are performing the task and that it's done timely and in proper amounts, and note that we already insure appropriate individuals are performing the task through the access rights functionality in the CI system, and while we don't audit each transaction we do have audits that drop any accounts that fall outside of parameters for billed rate, RCI category etc. that are already reviewed daily and monthly.

### **COAL INVENTORY CONTROLS**

Currently, coal inventory procurement is heavily concentrated within one individual and that individual has the ability to approve purchases for coal, directly receives shipment verification and approves invoices for payment. We recommend that these processes be separated for improved segregation of duties.

#### *Management's Response:*

Management disagrees as in past years with this recommendation. Fuel Procurement takes the lead in requesting quotations from multiple suppliers of coal and rail services. Process management and the Director of Production review these proposals. They then direct Fuel Procurement to draft contracts for the best-evaluated proposal. These contracts are reviewed by legal and are approved by the General Manager and the Commissioners. Moreover, our Internal Auditor is currently conducting an audit of the coal inventory procurement process.

### **STORES AND PRODUCTION PARTS INVENTORY**

In our observation of the stores and production parts inventories, we noted several differences between actual quantities on hand in the warehouse and the inventory listing as of June 30, 2005. We understand that cycle counts are performed on inventories throughout the year. However, it does not appear the scope is sufficient given the multitude of items in inventory and the high level of activity surrounding purchasing and requisitioning of parts. We recommend a full physical inventory count be performed on all stores and production parts inventory during fiscal year 2006, and that more comprehensive cycle count procedures be implemented going forward. The intent of the cycle count procedures should be to assure that every inventory item is counted at some point during the fiscal year.

#### *Management's Response:*

Management is in agreement with these recommendations. A full physical inventory count will be performed during fiscal year 2006. Cycle counting has been modified to assure that every inventory item is counted at least once during fiscal year 2006.

### **STORES INVENTORY ACCESS AND CONTROLS OVER REQUISITIONS**

Through discussions with warehouse personnel, it came to our attention that BWL service employees have access to remove inventory items from the yard in response to after-hours service calls, with no formal requisitioning process in place. Currently, the manager of the employee who removed the inventory is responsible for communicating the details of the requisition to warehouse personnel so that the inventory records are updated appropriately. We recommend a requisitioning system be instituted for service employees in need of yard inventory items after-hours to facilitate accurate and timely yard inventory records.

#### *Management's Response:*

Management disagrees with the finding that there is no formal requisitioning process in place. The existing requisitioning process requires the BWL service employee to complete an online requisition using the T30 TIP Screen by the first business day following the after-hours service call. Management agrees that BWL service employees who have access to remove inventory items from the yard should conform to the existing requisitioning process. Management is responsible for insuring that BWL service employees are held accountable for conformance to the existing requisitioning process.

### **CONSTRUCTION WORK IN PROGRESS (CIP)**

During the 2005 fiscal year, management implemented a system to allow review of the CIP balance on a project by project basis. This review is performed by a member of the accounting staff on a monthly basis with input from the appropriate project managers. The monthly reporting and review is designed to facilitate evaluation by the accounting department of the projects in CIP including the duration of time projects have remained in CIP, the status of the project through review with project managers, and a determination whether a portion of the project is complete and should be placed in service and depreciated or removed and expensed.

Based on our analysis of CIP, it appeared that there were a significant number of projects that remained in CIP with start dates of a number of years ago. We believe that certain items remain in CIP which should be placed in service and warrant further review by BWL management. For instance, we noted that approximately \$5.4 million of the June 30, 2005 CIP balance relates to projects that have had limited to no activity subsequent to August 2004. It is likely that much of these projects are completed and should be placed in service and depreciated.

#### *Management's Response:*

Management agrees with this recommendation and during the 2005 fiscal year, tools and procedures were developed which significantly increased our ability to monitor and track the status of construction-in-progress. By the end of the fiscal year, many projects completed in prior fiscal years were identified and transferred to the appropriate capital accounts. For the 2006 fiscal year, the process improvements and increased communication with project managers will allow us to transfer substantially all completed construction- in-progress balances to their respective capital accounts.

September 2, 2005

**CAPITALIZED INTEREST – CONSTRUCTION WORK IN PROGRESS**

During the year, the accounting department implemented a policy whereby interest costs are capitalized on certain construction projects while in process, in order to comply with existing accounting literature. We recommend the BWL reevaluate this policy and consider lowering the threshold for projects on which interest costs are capitalized.

*Management's Response:*

Management disagrees with this recommendation and will continue to use its policy of projects that are Planned or Bonded and are over one million dollars in total.

We appreciate the cooperation extended to us by the BWL staff during the June 30, 2005 audit. If you would like to discuss any of the above matters, please do not hesitate to contact us.

Very truly yours,

**PLANTE & MORAN, PLLC**

A handwritten signature in black ink, appearing to read 'DR', with a long horizontal stroke extending to the right.

Douglas Rober, CPA  
Partner

cc: Mr. Dennis McFarland, Senior VP of Finance and Administration